

The City of

SAN DIEGO



Overview

1. Update regarding organizational changes and overview of the City's downtown portfolio
 - City has a whole
 - City's Real Estate Department
2. Analysis of City office space capacity and needs
3. Future Options for Downtown City-Owned Property



Update on organizational changes to the City's Real Estate Department and overview of the City's portfolio

Can the City Change the Public Perception of How it Handles Real Estate Transactions??



“Enron By The Sea”

- Fiscal year 2003 the public lost faith in the City's ability to manage its financial reporting and disclosure
- S&P and Fitch Rating both withdrew the City's credit ratings
- The City lost access to the public finance markets
- The City couldn't even issue accurate financial statements



“Enron By The Sea” – Now Look at Us!!!

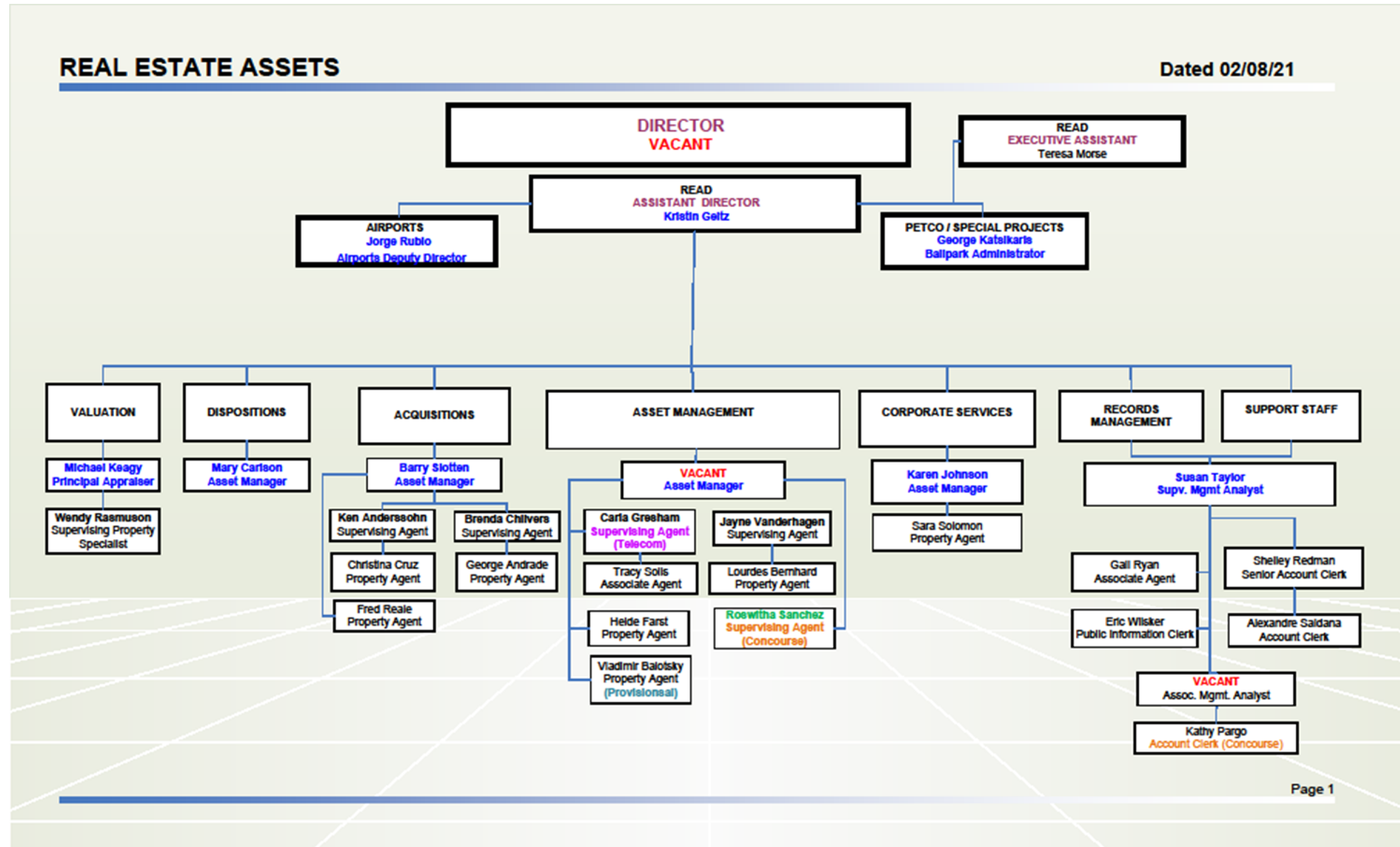
- New professional staff were hired in key positions
- An audit was commissioned to look at the City's financial reporting practices
- Organizational changes were made
- Nearly 125 audit recommendations were agreed to and implemented
- The City established sound financial policies
- The City developed long range financial forecasting
- The Disclosure Practices Working Group was established
- Established the Office of the City Auditor

**NOW THE CITY IS A MODEL
OFTEN SITED AS GOOD GOVERNANCE OVER FINANCIAL DISCLOSURE**

December 2020 – A New Beginning

- Five new Council Members
- A new Mayor and Administration instilling a moral compass into the organization
- An organizational structure that provides for checks and balances
- A Mayor and City Council that expects excellence and transparency
- Organizational changes to the Real Estate Department

February 2021 - READ



Department Update

This administration brought in two new professionals to lead READ and transform it into DREAM

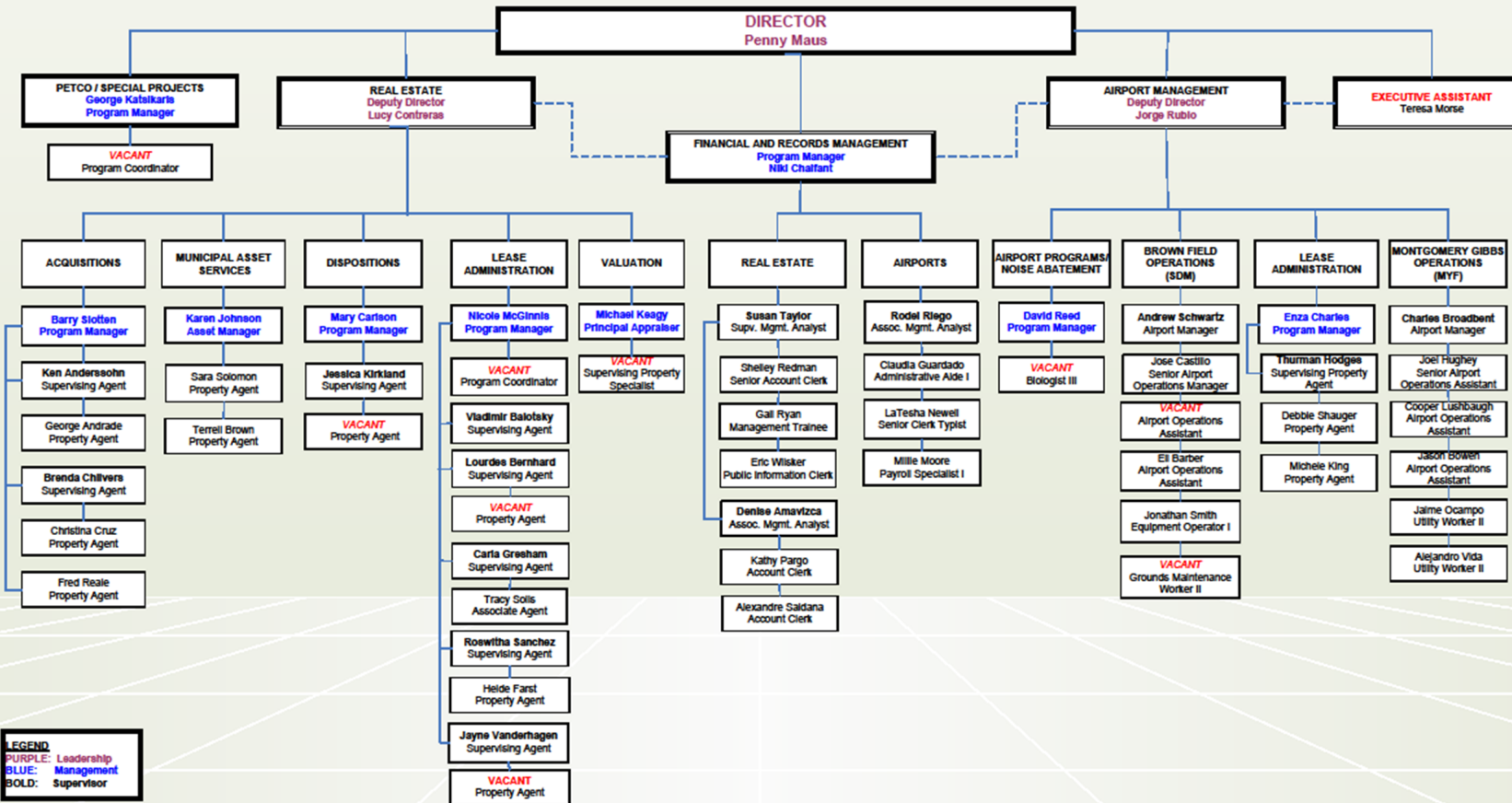
- Penny Maus
- Lucy Contreras



February 2022 - DREAM

DEPARTMENT OF REAL ESTATE AND AIRPORT MANAGEMENT (DREAM)

Revised February 1, 2022



City's Real Estate Portfolio



Department of Real Estate and Airport Management

1200 Third Ave., Suite 1700
San Diego, CA 92101
619-236-6020
realestate@sandiego.gov



The City of San Diego owns
1,600
properties totalling
123,000
acres



Over
800
properties leased by third parties,
generating
\$80,000,000
in income




City airports support
1,500
local jobs and generate
\$199,000,000
in economic activity annually


City's Real Estate Portfolio

Department of Real Estate and Airport Management | sandiego.gov/real-estate-and-airport-management

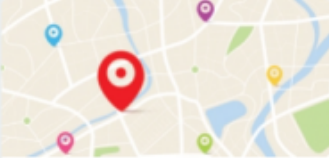
Features




Available Properties




Brown Field Municipal Airport




Map of City-owned Land




Mission Bay



Montgomery-Gibbs Executive Airport



Petco Park



Surplus Property

Latest News

12/9/2021
[City of San Diego Receives Responses for Redevelopment of Sports Arena Site](#)

10/4/2021
[City of San Diego Issues Notice of Availability for Redevelopment of Sports Arena Site](#)

08/30/2021
[Mayor Gloria Announces First COVID-19 Testing, Monoclonal Antibody and Post-Exposure Treatment Site in County](#)

[More News & Updates](#)

Feedback

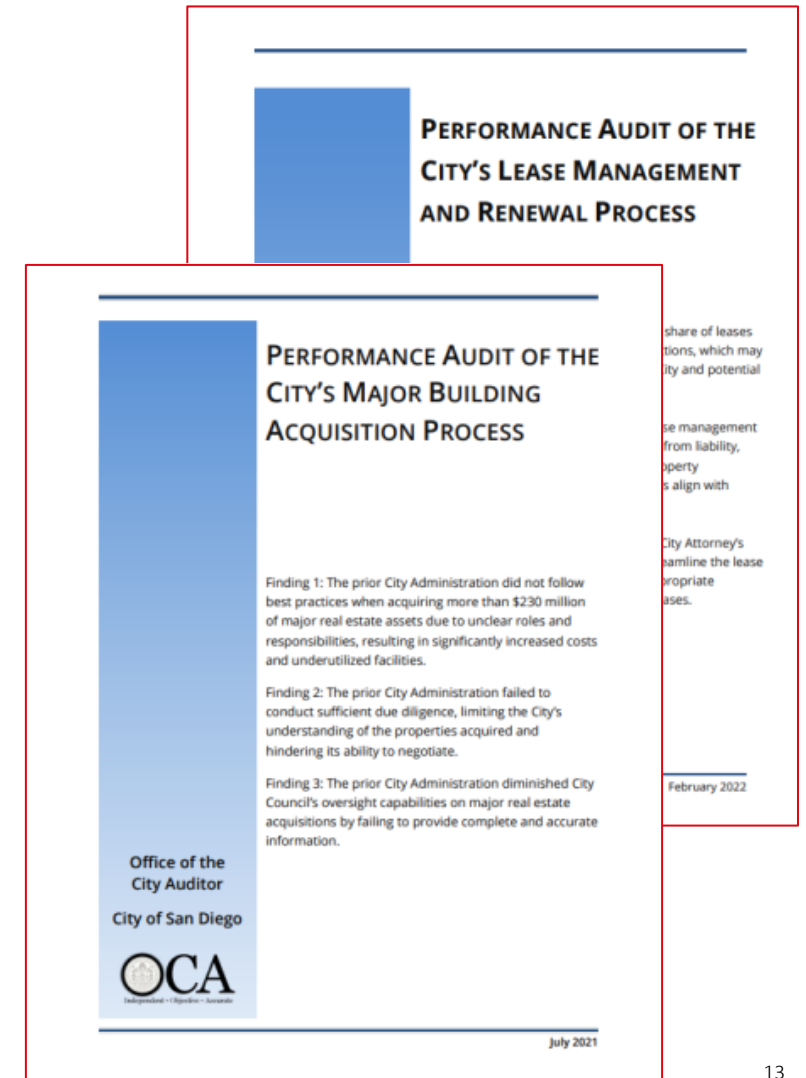
City's Real Estate Practices

Staff report improvements

- Attaching appraisals, financial analysis, etc.

Implementing Audit recommendations

- Best practices checklist for acquisitions
- Council Policy updates
- Pursuing upgraded/new lease administration software in FY23





Questions



Analysis of City office space capacity and needs



Introduction

Scope

The City of San Diego (“City”) engaged JLL to assess its Civic Center administrative and office portfolio to support the City’s alternatives analyses, real estate, and financial decisions. JLL’s assessment included the following properties (“Civic Center Portfolio”):

- 101 Ash Building (101 Ash)
- Civic Center Plaza (CCP), 1200 3rd Avenue
- City Administration Building (CAB), 202 C Street
- City Operations Building (COB), 1222 First Avenue

In addition to the Civic Center Portfolio, JLL reviewed four downtown City leases.

JLL’s scope of work included three primary elements:

1. Defining the City’s office and administrative space current state and uses
2. Analyzing the known costs to operate, maintain and renew the Civic Center Portfolio and downtown leases
3. Developing alternatives and potential changes in space needs for the City’s Civic Center Portfolio and downtown leases that consider potential future workplace strategies, purpose of the office and financial impacts



Key Questions

1 How do the Civic Center Portfolio and downtown leases align with City space needs?

2 What do the evolution of the office and COVID-19 impacts mean for the City's use of space as a leading regional employer?

3 What real estate and financial results may be achieved through portfolio actions and adoption of best practice workplace strategies?



Global Workplace Trends



Workplace Attitude Shifts

67%

of real estate decision makers are **increasing workplace mobility programs**

70%

of employees **prefer the office for collaboration** and connection

71%

of employees expect more **flexible schedules**

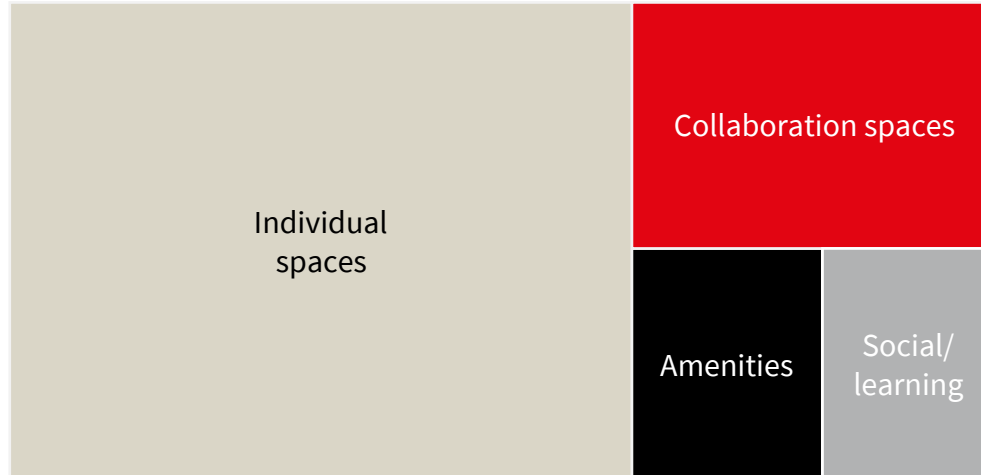
74%

of employees want to work in the **office in some capacity**

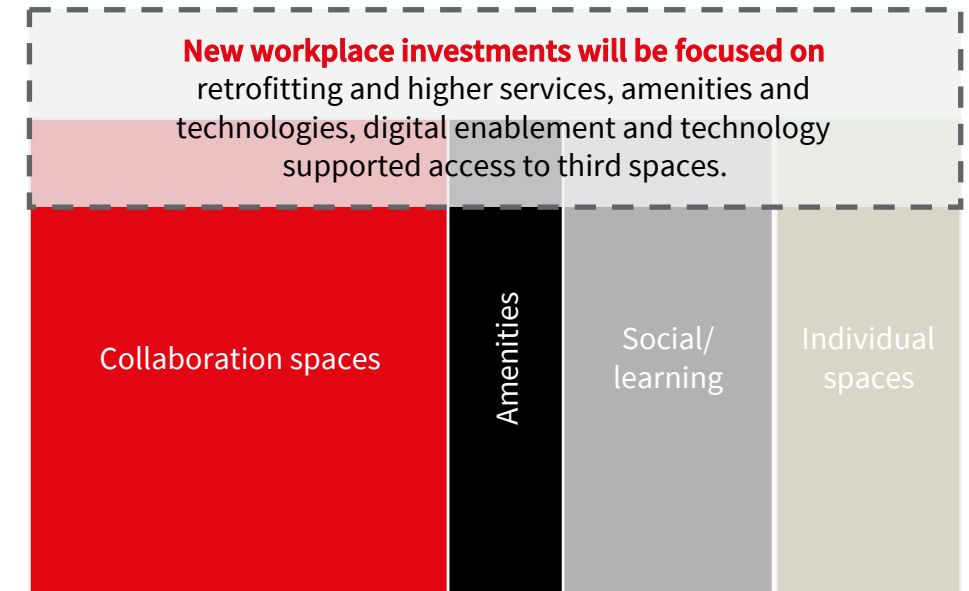
The Workplace as a Social Hub

Historical office/ workplace allocation

The historical office was focused upon individual work with greater individual workplace allocation



Future office/workplace allocation The work from anywhere ecosystem



The Hybrid Office Future

63%

of the workforce want to keep
the possibility to alternate
between different places of
work in the future

Source:
JLL, Worker Barometer, 2021

49%

of organizations still have not
developed a 'future of work'
program

Source:
JLL, Work Dynamics Pulse Survey, October
2021

Shaping the Future of Work

Key Drivers and enablers:

The workplace will be a destination and a social hub.

Healthy workplaces and wellness will be central to the hybrid model.

Decarbonizing the built environment will be an imperative.

Technology managed services will enable the future of work.



Key Outcomes:

Built-in elasticity:

- Provide choice
- Empower users
- Anticipate demand
- Enable experience anywhere
- Adjust flexibility
- Enable hybrid work
- Unlock dynamic occupancy
- Deliver fulfillment

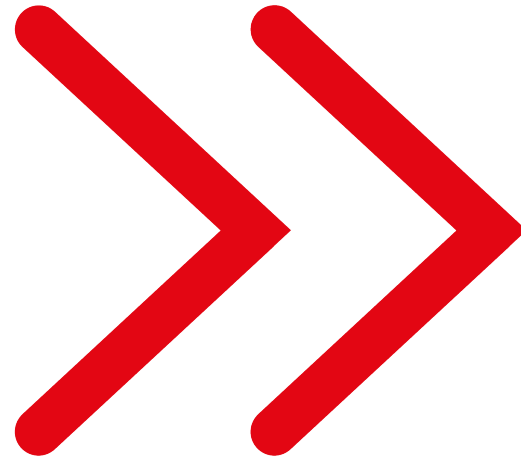


City of San Diego Downtown Office Analysis



Understanding the Current State

**How does the City
currently use its office
and administrative
space downtown?**



Civic Center Plaza

City Operations Building

City Administration Building

101 Ash Street

Downtown Leases

Civic Center Portfolio: Current State

Note: all values are estimates based on available information.

Property	Ownership Status	Office Square Feet	Head Count	Seat Count	Seat Sharing Ratio	Office SF / Employee	Office SF / Seat	Annual Occupancy Cost	Deferred Maintenance & Capital Costs
101 Ash	Lease-to-Own	314,545 SF ⁽¹⁾	0 employees	Not Applicable	Not Applicable	Not Applicable	Not applicable	\$1,393,910 ⁽²⁾ \$4 per SF	\$115,000,000
Civic Center Plaza	Lease-to-Own	243,922 SF	871 employees	982 office seats	0.89 employees per seat	280 SF	248 SF	\$8,115,638 \$28 per SF	\$7,200,000 ⁽³⁾
City Admin Building	Owned	115,474 SF	447 employees	356 office seats	1.26 employees per seat	258 SF	324 SF	\$2,125,361 \$15 per SF ⁽⁴⁾	\$94,855,985
City Operations Building	Owned	121,794 SF	450 employees	696 office seats	0.65 employees per seat	271 SF	175 SF	\$2,619,389 \$15 per SF ⁽⁴⁾	\$45,168,510
Total / Average⁽²⁾	Not applicable	796,000⁽¹⁾ Office SF	1,768 employees	2,034 office seats	0.87 employees per seat	272 SF per employee	237 SF per office seat	\$14,300,000	\$262,000,000

(1) 101 Ash is represented as gross square feet; all other property square footages represent office square footage only.

(2) Cost does not include lease payment and reflects only current estimated City costs to maintain and secure the building as vacant; 101 Ash lease payment is included in financial modeling.

(3) From 2008 CDRP Report. Unadjusted for time; 3% annual increase to 2021 is \$10,573,443

(4) Assumption of \$15.00 per square foot total annual occupancy expense was used for CAB & COB

Summary: City Downtown Leases

Note: all values are estimates based on available information.

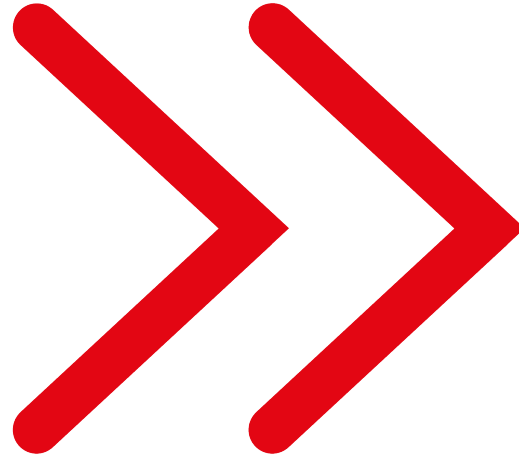
Property	Ownership Status	Office Square Feet	Head Count	Office SF / Employee	2021 Annual Cost Per SF	2021 Total Annual Occupancy Cost	Growth Rate	2027 Annual Cost Per SF ⁽¹⁾	2027 Total Annual Occupancy Cost ⁽¹⁾
1122 Broadway	Lease	22,216 SF	NA ⁽²⁾	NA ⁽²⁾	\$26 per SF	\$573,173	3 %	\$31 per SF	\$684,398
525 B Street	Lease	90,778 SF	583 Employees	156 SF	\$45 per SF	\$4,113,396	4 %	\$56 per SF	\$5,096,517
450 B Street	Lease	2,325 SF	10 Employees	233 SF	\$42 per SF	\$96,960.08	3 %	\$50 per SF	\$115,775
600 B Street	Lease	14,972 SF	62 Employees	241 SF	\$40 per SF	\$601,752.00	3 %	\$48 per SF	\$718,523
Total / Average	Not applicable	130,291 Office SF	655 Employees	199 SF per employee	\$41 per SF	\$5,385,281	Not applicable	\$51 per SF	\$6,615,213

(1) 2027 assumed as the stabilized future year for purposes of change implementation and financial analysis

(2) Use of 1122 Broadway space assumed to be static (optimization of space not likely).

Benchmarking & Best Practices

**As the City looks to the
Office of the Future,
what are the key drivers
of its office space
needs?**



Employee Work Styles
Seat Sharing
Space Utilization

Space Needs: Employee Work Styles

Potential for diverse work styles, from **fully on-site/anchor, hybrid and remote** employees, create a range of potential space needs and office provisioning.

Work Style:			On-Site / Anchor	Hybrid	Remote
Mobility Characteristics	Profile	Mobility	Low external mobility	Low – Med, internally mobile	High external mobility
		Days in Office	4-5 days	2-3 days	0-1 days
	Space	Workstation	Assigned workstation	Assigned or unassigned workstation	unassigned workstation
	Technology	Computer	Laptop or desktop	Laptop or desktop	Laptop
		Telephone	Desk phone and/or Softphone	Desk phone and/or softphone	Unassigned desk with phone generic extension

Industry Reference Points

- **40% of public entities** have a mobility program in place
- **Salesforce:** three workforce options going forward: flex, fully remote, and office-based
- **Workday:** four employee groups based on functional requirements; “always,” “mostly,” “seldom,” and “never” in the office
- **PwC** expects staff will want the best of both worlds and will adopt a “blended working” approach

Space Needs: Seat Sharing

Based on a range of employee work styles, JLL determined **seat sharing ratios** at the City department level to profile the potential for **anchor, moderately-mobile and highly-mobile City departments**. JLL worked with the City's Real Estate Director to assign preliminary mobility profiles across all City departments in CCP, CAB and COB.

The illustration below demonstrates the methodology for determining potential department mobility using an **example department of 100 employees**.

Moderately-Mobile Department	Employee Work Style	% of Employee Work Style	Estimated Employees (n = 100)	Weekly Attendance In-Office	Seat Demand	Seat-Sharing Ratio; employee/seat	Department Seat-Sharing Ratio
	Remote	20%	20	20% (1 day)	4	5.0	1.5
	Hybrid	45%	45	60% (3 days)	27	1.7	
	On-Site/Anchor	35%	35	100% (5 days)	35	1.0	
	Totals:	100%	100	n/a	66	n/a	

Highly-Mobile Department	Employee Work Style	% of Employee Work Style	Estimated Employees (n = 100)	Weekly Attendance In-Office	Seat Demand	Seat-Sharing Ratio; employee/seat	Department Seat-Sharing Ratio
	Remote	40%	40	20% (1 day)	8	5.0	2.0
	Hybrid	45%	45	60% (3 days)	27	1.7	
	On-Site/Anchor	15%	15	100% (5 days)	15	1.0	
	Totals:	100%	100	n/a	50	n/a	

Industry Reference Points

- **JLL** recent government clients targeting aggregate seat-sharing of ~1.2 to ~1.7
- **Google** adopting a 3:2 office to remote hybrid plan
- **Apple** to mandate Mondays, Tuesdays and Thursdays as “office” days in new hybrid program
- **Salesforce** planning for 65% of employees in office 1 to 3 days per week
- **Siemens** planning for a work from home program of 1 to 3 days per week

Space Needs: Utilization

The space allocated for employees is a basic building block of space needs. In addition to **individual workspaces, customer and public-facing space, collaboration space and buffer or structured vacancy** are key occupancy planning assumptions, particularly for hybrid work models.

Utilization	Traditional	JLL Base Case for City	Flexible	Notes
SF per office seat	400 SF	175-250 SF	100 SF	Base City assumption ranges based on customer -facing roles versus individual workspaces; smaller workspaces typically require more shared office elements
Buffer space	0%	10%	20%	Buffer space can provide office space flexibility on days that experience larger demand.

JLL worked with the City's Real Estate Director to assign preliminary customer facing profiles across all City departments in CCP, CAB and COB.

Future City office configurations and types of spaces available will depend on several factors and potential renovation needs. See the later discussion of costs and renovation illustrations for more information.

JLL Occupancy Benchmarks:

- **Government:** 150 SF / seat
- **Communications:** 125 SF / seat
- **Financial Services:** 156 SF / seat
- **Technology:** 172 SF / seat

JLL Research Study: 2019-2020
Occupancy Planning Guide



Conclusions & Next Steps



Key Results

Based on current assumptions and understanding:

- 1. In consideration of potential remote and hybrid workplace strategies, the City has ample office space downtown from which to consider alternatives, including divestiture, consolidation, relocation of additional employees to downtown and reimagined uses of space.**
- 2. The spectrum of available alternatives will depend on the City's real estate goals and adoption of new workplace strategies, which will require a deeper consideration of current asset conditions and opportunities, managing change, technology enablement, and employee satisfaction, recruitment and retention.**
- 3. Potential for significant long-term cost savings exists through consolidation and adoption of hybrid workplace strategies. Additional opportunities to implement workplace strategy change may exist outside of downtown, which could result in further cost savings, consolidation or swing space to accommodate other actions.**
- 4. City has the opportunity to control the development of the Civic Center Core, including adjacent properties.**

Next Steps and Implementation

Implementation will require a deeper level of engagement on real estate and workplace strategy opportunities.

Increased engagement with City management and staff

- Greater voice of the City and employee
- City success factors and values
- Validate workplace strategy

Ground truth assumptions and viability of alternatives

- Further assess facility condition
- Validate renovation and floorplan options and operating expenses

Expand scope of study to assess full 'Office of the Future' considerations

- Iterative testing of scenarios and workplace models and deeper understanding of financial impacts and decision process
- Develop change management, sustainability, employee experience and technology strategies

Implement workplace pilot programs to test concepts

- Test concepts - manageable and measurable
- Measure, analyze and learn from results from an operational and employee perspective
- Targeted change management pre- and post-occupancy

Develop full implementation program and change management

- Engage full change management strategy
- Develop action plan, process, policies and procedures
- Implement space changes and technology adaptations



Questions



Future Options for Downtown City-Owned Property



Future Options for Downtown City-Owned Property



State of California
Request for Qualifications
Mixed Use Development
including Affordable Housing
For Excess Sites
Under Executive Order N-06-19

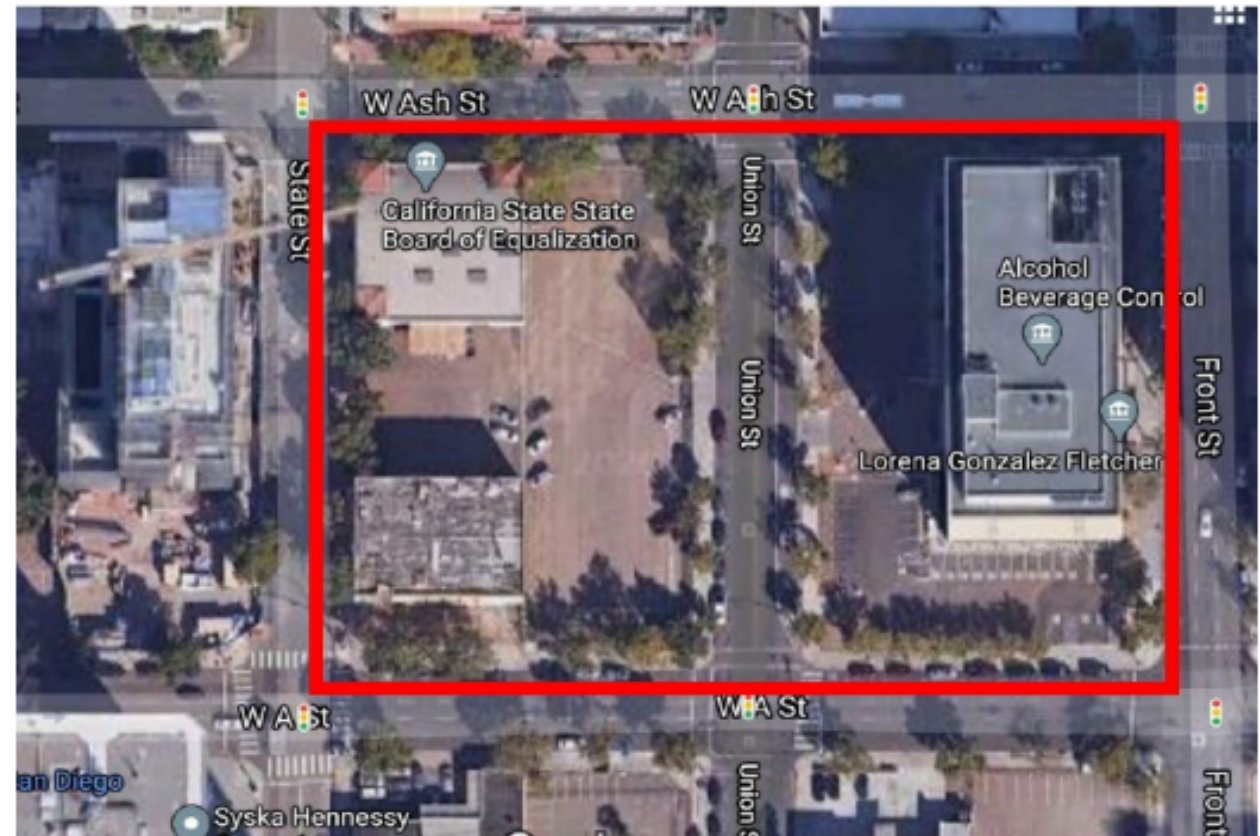
Location:
1350 Front Street
San Diego, CA 92101

Released: November 15, 2021
Due: 5:00 pm PT on February 3, 2022

EO N-06-19 RFQ No. 4-21



See Exhibit 6.



Future Options for Downtown City-Owned Property



Future Options for Downtown City-Owned Property



VIEW TOWARDS SANTA FE AND THE BAY

Future Options for Downtown City-Owned Property

Ability to Execute

Midway Notice of Availability (NOA)

- Declaration of surplus property with development condition for regional entertainment venue
- 60 day NOA issued October 14, 2021
- 5 responses moved into 90-day good faith negotiating period
- Up to 2000 affordable housing units (below 80% AMI) proposed

CA Department of Housing and Community Development (HCD)

- Successful collaboration
- Considered to be a state-wide model

Thank you

The City of

SAN DIEGO



JLL